

Message Text

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PAGE 01 LONDON 03021 01 OF 02 231900Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 CAB-05 CIAE-00 COME-00
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P 231758Z FEB 78
FM AMEMBASSY LONDON
TO SECSTATE WASHDC PRIORITY 3467

UNCLAS SECTION 01 OF 02 LONDON 03021

E.O. 11652: N/A
TAGS: EAIR, US, UK
SUBJECT: CIVAIR: BRANIFF AND OTHER NORTH ATLANTIC
FARES: UK MEMO

REF: STATE 46400

1. UK FARE MEMO WAS APPARENTLY MISDIRECTED WITHIN UK DEPT. OF TRADE, BUT EMBASSY OBTAINED COPY BEFORE DELIVERING MESSAGE AS INSTRUCTED REFTEL. MEMO COVERS ESSENTIALLY SAME GROUND AS BRITISH ORAL ARGUMENT DURING LAST ROUND OF BILATERAL TALKS AND DID NOT SEEM TO JUSTIFY DELAYING US MESSAGE. MOST INTERESTING NEW MATERIAL IS MORE PRECISE PRESENTATION OF CLAIMED DIVERSION VS. GENERATION. (INITIAL BRITISH REACTION TO US MESSAGE REPORTED SEPTTEL.)

2. TEXT OF COVERING LETTER DATED FEB. 17 FROM DEPUTY SECRETARY SHOVELTON OF UK DEPT. OF TRADE TO DEPUTY ASSISTANT SECRETARY ATWOOD IS AS FOLLOWS:

BEGIN QUOTE: DEAR JIM, I ENCLOSE A COPY OF OUR STATEMENT ON THE PROPOSALS TO EXTEND BUDGET AND STANDBY FARE TO US GATEWAYS OTHER THAN NEW YORK DURING THE COMING SUMMER SEASON. COULD I LEAVE IT TO YOU TO GIVE THIS PAPER SUCH FURTHER DISTRIBUTION AS YOU THINK FIT?
UNCLASSIFIED

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PAGE 02 LONDON 03021 01 OF 02 231900Z

I THINK YOU SHOULD KNOW THAT BECAUSE THIS SUBJECT WAS DISCUSSED AT THE RECENT MEETING OF DIRECTORS-GENERAL OF ECAC, I AM SENDING A COPY OF IT TO THE SECRETARIAT FOR DISTRIBUTION TO ALL THE MEMBER STATES. YOURS, PATRICK (WPSHOVELTON). END QUOTE.

3. MEMO ITSELF, ALSO DATED FEB. 17, IS ENTITLED
"STATEMENT OF THE UNITED KINGDOM POSITION ON BUDGET AND
STANDBY FARES BETWEEN ADDITIONAL POINTS IN THE UNITED
KINGDOM AND THE UNITED STATES OF AMERICA" AND READS AS

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FOLLOWS: BEGIN QUOTE: AT THE BILATERAL TALKS IN LONDO
HELD BETWEEN 6 AND 13 FEBRUARY 1978 THE US AUTHORITIES
UNDERTOOK TO RECEIVE AND CONSIDER A STATEMENT FROM THE
UNITED KINGDOM RELATIVE TO PROPOSALS TO EXTEND BUDGET
AND STANDBY FARES TO GATEWAYS OTHER THAN NEW YORK FOR
THE COMING SUMMER SEASON.

2. THE FACTS ARE THAT BOTH THE UNITED KINGDOM AND THE
UNITED STATES GOVERNMENTS HAVE ALREADY AGREED TO REGARD
THE SKYTRAIN SERVICE BETWEEN LONDON AND NEW YORK AS
EXPERIMENTAL IN CHARACTER AND THE SAME IS TRUE OF THE
BUDGET AND STANDBY FARES THAT WERE INTRODUCED LAST
AUTUMN IN THAT MARKET IN RESPONSE TO SKYTRAIN. THIS
POINT IS MADE CLEAR, FOR EXAMPLE, IN THE CAB PERMIT
(LIMITED TO ONE YEAR ONLY) FOR THE SKYTRAIN SERVICE AND
IN THE DECISION OF THE BOARD IN THAT CASE. IT IS ALSO
MADE CLEAR IN THE LETTER OF 19 SEPTEMBER 1977 FROM
MR. JOEL BILLER OF THE STATE DEPARTMENT TO MR. GORDON-
CUMMING, UNITED KINGDOM COUNSELLOR FOR CIVIL AVIATION
AND SHIPPING IN WASHINGTON, WHICH GOES ON TO STATE THAT
UNCLASSIFIED

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PAGE 03 LONDON 03021 01 OF 02 231900Z

THESE FARES "SHOULD BE REVIEWED BY OUR GOVERNMENTS AS
SOON AS SUFFICIENT EXPERIENCE OF THEM HAS BEEN
ACQUIRED." MOREOVER IN THE COURSE OF THE CONSULTATION
UNDER ARTICLE 12 OF BERMUDA 2 IN LONDON ON 10 FEBRUARY
1978 IT WAS COMMON GROUND BETWEEN THE TWO SIDES THAT
INSUFFICIENT EXPERIENCE HAS YET ACCRUED ON WHICH TO BAS
A SECURE JUDGMENT AS TO WHETHER THE EXPERIMENT HAS
PROVED SUCCESSFUL AND WORTHY OF EXTENSION TO OTHER GATE-
WAYS. IT IS, IN THE VIEW OF THE UNITED KINGDOM, OF THE
ESSENCE OF ANY EXPERIMENT THAT THE RESULTS SHOULD BE
EXAMINED BEFORE IT IS DECIDED TO PROCEED TO A MORE
GENERAL IMPLEMENTATION.

3. PRELIMINARY INDICATIONS SUGGEST THAT THE INTRODUC-
TION OF SKYTRAIN AND OF BUDGET AND STANDBY FARES MAY
HAVE CONTRIBUTED TO A REDUCTION IN CHARTER TRAFFIC ON
THE LONDON-NEW YORK ROUTE AND ALSO TO A MEASURE OF
DIVERSION OF TRAFFIC ON EXISTING SCHEDULED SERVICES FROM
HIGHER FARE CATEGORIES. IN PARTICULAR, IN-FLIGHT
SURVEY DATA SUGGESTS THAT SOMETHING LIKE HAT OF SGRQTBWDOWD BUDGET TR
AFFIC WOULD HAVE FLOWN ON SCHEDULED SERVICE
IF THESE FARES HAD NOT BEEN AVAILABLE. PRELIMINARY

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PAGE 01 LONDON 03021 02 OF 02 232224Z
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UNCLAS SECTION 02 OF 02 LONDON 03021

CALCULATIONS SUGGEST THAT THE EFFECT OF THE INTRODUCTIO
OF THESE FARES MAY BE TO INCREASE TOTAL TRAFFIC ON
SCHEDULED SERVICES BY ABOUT 15 PCT. BUT TOTAL REVENUE ON
THOSE SERVICES BY ONLY 3 PCT. BECAUSE THESE INDICATIONS
AND ESTIMATES ARE BASED ON A VERY SHORT AND PERHAPS
UNREPRESENTATIVE PERIOD THEY MUST BE TREATED WITH EVERY
RESERVE BUT, IN THE FACE OF THIS EVIDENCE SUCH AS IT IS
AND THERE IS NO OTHER--, COMMON PRUDENCE DICTATES THAT
BOTH OUR AUTHORITIES SHOULD BE SLOW TO PERMIT THE
PROLIFERATION OF THESE FARES TO OTHER GATEWAYS.

4. THE UNITED KINGDOM IS PARTICULARLY CONCERNED AT THE
IMPACT THAT SUCH PROLIFERATION WOULD HAVE UPON THE
PROFITABILITY OF EFFICIENT BRITISH AIRLINES--AND PRE-
SUMABLY THIS CONSIDERATION MUST APPLY ALSO TO EFFICIENT
UNITED STATES AIRLINES. FOR VARIOUS REASONS, INCLUDING
THE IMPACT OF SKYTRAIN, BUDGET AND STANDBY FARES ON
THE PROFITABILITY OF ITS LONDON-NEW YORK SERVICES AND
THE DIVERSION OF TRAFFIC RESULTING FROM THE OPENING UP
OF NEW GATEWAYS, BRITISH AIRWAYS FORESEE AN OVERALL
RESULT FOR ITS UNITED STATES SERVICES IN 1978-79 LITTLE
BETTER THAN BREAK-EVEN ON A FULLY ALLOCATED COST BASIS;
THE INTRODUCTION OF BUDGET AND STANDBY FARES ON GATEWAY
OTHER THAN NEW YORK WOULD BE VERY LIKELY TO PUT BRITISH
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PAGE 02 LONDON 03021 02 OF 02 232224Z

AIRWAYS INTO LOSS WHEREAS THE OBJECT MUST BE TO ENABLE THAT AIRLINE TO SECURE AN OPERATING PROFIT TO JUSTIFY, INTER ALIA, INVESTMENT ON REPLACEMENT AND ADDITIONAL AIRCRAFT ON WHICH EARLY DECISIONS NOW HAVE TO BE TAKEN. THE QUESTION OF THE PURCHASE OF US AIRCRAFT--INCLUDING HOW MANY--INEVITABLY COMES INTO CONSIDERATION. THE PROLIFERATION OF THESE FARES WOULD ALSO ADVERSELY AFFECT THE NEWLY-OPENED SERVICES OF BRITISH CALEDONIAN ON THE HOUSTON-LONDON ROUTE WHICH HAVE YET TO REACH SATISFACTORY LOAD FACTORS AND A PROPER LEVEL OF PROFITABILITY; AND, INDEED, COULD ADVERSELY AFFECT LAKER'S SKYTRAIN RESULTS. IT SHOULD ALSO BE BORNE IN MIND THAT THE PROLIFERATION OF THESE FARES AT THIS TIME COULD ADD TO THE DIFFICULTIES CURRENTLY FACED BY CHARTER OPERATORS. THEY COULD ALSO VERY ADVERSELY AFFECT THE SITUATION OF AIRLINES OF OTHER EUROPEAN STATES WITH INEVITABLE POLITICAL AND ECONOMIC REPERCUSSIONS.

5. IN THE LATTER CONNECTION THE UNITED KINGDOM GOVERNMENT IS MUCH CONCERNED AT THE IMPACT THAT THE PROLIFERATION OF BUDGET AND STANDBY FARES TO GATEWAYS OTHER THAN NEW YORK COULD HAVE ON THE NORTH ATLANTIC FARE STRUCTURE AS A WHOLE, GIVEN THE PRESENT DISARRAY IN WHICH MANY AIRLINES AND GOVERNMENTS NOW FIND THEMSELVES. IT IS AGAINST THIS BACKGROUND THAT MEMBER STATES OF THE EUROPEAN CIVIL AVIATION CONFERENCE (ECAC) HAVE ADOPTED A RECOMMENDATION THAT FILINGS OF BUDGET AND STANDBY FARES ON GATEWAYS OTHER THAN NEW YORK SHOULD BE REJECTED BY MEMBER STATES. THIS RECOMMENDATION ACCORDS WITH THE POSITION THAT THE UNITED KINGDOM WOULD IN ANY CASE WISH TO TAKE. IT DOES HOWEVER POINT TO THE WIDER CONCERNS THAT THE UNITED STATES HAS TO TAKE INTO ACCOUNT IN DETERMINING ITS POLICY IN THESE MATTERS.

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PAGE 03 LONDON 03021 02 OF 02 232224Z

6. THESE CAUTIONARY NOTES RELATE TO THE FILING OF TARIFFS FOR THE COMING SUMMER PERIOD. THEY CERTAINLY DO NOT MEAN THAT THE UK IS AGAINST THE INTRODUCTION OF LOW FARES. FAR FROM IT. INDEED ARTICLE 12 OF BERMUDA 2 CONTAINS COMMITMENTS IN THIS RESPECT. ON THE OTHER HAND THAT ARTICLE ALSO ENJOINS THE CONTRACTING PARTIES TO ESTABLISH FARES AT A LEVEL WHICH WILL GIVE AN ADEQUATE RETURN TO EFFICIENT AIRLINES. THE UNITED KINGDOM WILL BE ENTIRELY READY TO REVIEW THE RESULTS OF THE EXPERIMENTS ON THE LONDON-NEW YORK ROUTE SEGMENT WITH THE UNITED STATES TOWARDS THE END OF THE COMING SUMMER

PERIOD AND WILL BE READY TO EXTEND CURRENT LOW FARE EXPERIMENTS IF, IN THE EVENT, THESE ARE SHOWN TO BE SOUND AND BENEFICIAL TO THE PUBLIC FOR THE LONG TERM AS WELL AS THE SHORT.

7. IN CONCLUSION, THE UNITED KINGDOM BELIEVES THAT IT IS RIGHT TO PROCEED WITH CAUTION ON THIS SUBJECT. MANY CHANGES ARE TAKING PLACE IN TRANSATLANTIC TRAFFIC CONDITIONS AT THE PRESENT TIME. THE UK CONSIDERS THAT IT WOULD BE WISE AND BEST TO DIGEST THE INNOVATIONS WHICH HAVE SO FAR BEEN MADE BEFORE PROCEEDING STILL FASTER ALONG THE LOW FARE PATH WITH THE DANGER THAT THIS WILL LEAD TO CHAOTIC CONDITIONS FOR AIRLINES, GOVERNMENTS AND, ABOVE ALL, TRAVELLERS. END QUOTE. BREWSTER

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